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C O N F I D E N T I A L SAN SALVADOR 001276

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SUBJECT: VP CANDIDATE ZABLAH SEES PROBLEMS IN EL SALVADOR'S
ECONOMY, IS OPTIMISTIC ABOUT CAMPAIGN

REF: SAN SALVADOR 1257

Classified By: Charge d'Affaires, for reasons 1.4 (b) and (d)

11. (C) Summary: Arturo Zablah, VP nominee for (center-right, pro-U.S.) ARENA, told us November 3 he fully supported CAFTA-DR, though he would do more to take advantage of the trade agreement. He lamented the restrictions placed on the Salvadoran economy by dollarization and privatization (going into great detail about ports), and noted the current GOES liquidity crisis. He was optimistic that ARENA would win the March 15 presidential election, noting the support he brought to the ticket from his exploration of a presidential run several months ago. Zablah undertook to advocate with the GOES for electricity companies strained financially by the government's inability to pay subsidies (reftel). End Summary.

Economic Concerns

12. (C) Arturo Zablah, VP running mate of ARENA's Rodrigo Avila, met with DCM and poloffs November 3. He was accompanied by advisors Carlos Vega and Jose Antonio Ventura Sosa. Zablah expounded at great length on his opposition to a draft port concession law that was referred to a special committee for renegotiation after encountering legislative opposition. He believed the proposal to grant a concession for a single winner to operate both ports would be anti-competitive, opening the way for pricing abuses and limiting the development benefits of the La Union port facilities for El Salvador. He noted that the La Union port was still a work in progress, with additional dredging required, as well as pending installation of high-voltage lines from San Miguel needed to operate cranes. (Note: In the interim, shipboard cranes can be used because La Union is a relatively sheltered port. End Note.) Zablah was pleased the concession deal was being revisited on terms he believes will be more realistic and favorable to El Salvador.

13. (C) Zablah said he supported the CAFTA-DR trade agreement, adding that he would take more steps to encourage business to take full advantage of CAFTA-DR. He said dollarization had negatively affected the competitiveness of the Salvadoran economy, since it could no longer adjust its exchange rate or print money to address a rising trade deficit or changing world economic conditions. He compared El Salvador's situation to Costa Rica's, noting the latter's ability to adjust its exchange rate. He also noted the GOES' lack of liquidity, especially short-term debt, and noted the difficulties of maintaining energy subsidies in this environment. Zablah was en route to a meeting with representatives of the electricity sector; DCM said they were frustrated at the GOES inability to pay subsidies or raise power rates. Zablah said the lack of dialogue between the GOES and the power companies had led to the current problems, and that he would work to resolve the differences. Zablah said that the GOES could complain about the situation, but at

the end of the day, it is contractually obligated to pay the subsidies.

¶4. (C) Zablah weighed in against further privatization in El Salvador. He argued that there is a track record of corruption in privatization deals in Central America, citing the example of Costa Rica, which he said privatized everything with disastrous results. Zablah discussed the pattern of increased privatization over the last four GOES administrations, and said that in the long-term, more privatization would not benefit the country.

¶5. (C) Zablah also discussed business conditions from the perspective of his furniture firm "Capri." Prices for raw materials had risen drastically and become a burden, he said, but were moderating. He said that over the past several years, banks and retailers had been willing to give loans to Salvadorans to buy a mattress on credit with nothing more than their DUI, or local ID. Credit, he said, had tightened significantly, and Capri was in a position to begin financing many of these purchases now as other lenders were either too skittish or too weak to do so. He saw this as a long-term competitive advantage.

The Campaign Front

¶6. (C) Discussing the campaign, Zablah expressed optimism at recent high turnout for ARENA events in eastern El Salvador, saying he saw significant opportunity to draw votes from that region. He expressed concern that some (left-wing) FMLN supporters attending these ARENA events seemed especially

hostile towards ARENA and Zablah. Zablah noted with some irony that for years he had been criticizing the actions of ARENA governments, yet was now painted by some as one and the same with ARENA. He said those who had supported his "Agenda for Change" and his exploration of a third-party run for the Salvadoran presidency were now fully behind the ARENA ticket and would be key to an ARENA victory. Zablah cited recent poll data, indicating that the ARENA ticket had gained three percent in two weeks, but qualified that by noting that there have been many errors in the polling.

¶7. (C) Zablah said he did not want to be a Vice President that had a ministerial-type function. Noting he had served as minister of economy (1989-1993) in the Cristiani government, Zablah said the problem with being a minister was the lack of control over your schedule. Zablah said he believed the current GOES structure was unworkable, with the Minister of Economy effectively reporting to the Technical Secretary of the Presidency (akin to a super minister for economic issues) in an arrangement that hindered efficiency. Zablah suggested he would serve in an economic coordinating role, and perhaps do away with the Technical Secretary position.

¶8. (C) Comment: Zablah's economic ideas diverge from ARENA's supposed pro-business orientation, and are the main reason some in the party objected to his involvement in an Avila administration. In practice, it is probably less a question of ideology than Zablah's non-membership in favored business cliques. However, Zablah's presence on the ticket has a favorable side: his economic views and business experience are attractive to the public, and could draw a significant portion of undecided voters back to ARENA.

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